

Business league; insurance claimants guaranty organization. An organization created under State statute to pay claims against insolvent fire and casualty insurance companies qualifies for exemption as a business league under section 501(c)(6) of the Code where membership in the organization is required of all insurance companies writing fire and casualty insurance in the State and its income is derived from membership assessments and claims against the assets of the insolvent companies.

Advice has been requested whether the organization described below qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

The organization is a nonprofit corporation created by State statute to pay claims against insolvent insurance companies. All insurance companies writing fire and casualty insurance in the State are required by statute to be members of the organization.

The organization services and pays claims on policies issued by insurance companies that have been adjudicated to be insolvent.

Any person whose claim is paid by the organization is deemed by State statute to have assigned his rights under the policy to the organization to the extent of his recovery from the organization.

The organization periodically files with the receiver or liquidator of the insolvent insurance company statements of the claims paid by the organization and estimates of anticipated claims on the organization to preserve the rights of the organization against the assets of the insolvent insurance company.

The organization's income is from membership assessments, required by statute, based on premiums written and amounts collected on claims against the assets of insolvent insurance companies. Its disbursements are for claims and miscellaneous administrative expenses.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose of which is to promote such common interest. Its activities should be directed towards the improvements of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons.

By assuring the payment of the above described claims and providing means for their orderly liquidation, the organization is serving a quasi-public function imposed by law which is directed

at relieving a common cause of hardship and distress of broad public concern in the field of insurance protection. This function also serves an important common business interest of the industry by meeting a widespread need which is incident to the field of insurance, could not be effectively met in the ordinary course of the individual insurance businesses of the members, and does not directly enhance the profitability of such individual businesses.

Since the claims paid by the organization are assigned to the organization by the original claimants, their payment does not cause any net earnings to inure to the benefit of the insolvent insurance companies. The added protection the organization's program affords policyholders is required by the State of all fire and casualty companies and does not create any competitive advantage for the member companies. It thus appears that the organization's activities do not constitute the performance of particular services for its individual members but are instead directed towards the improvement of business conditions in a line of business. See Rev. Rul. 71-155, 1971-1 C.B. 152.

Accordingly, the organization is exempt from Federal income tax under section 501(c)(6) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Exemption Application, in order to be recognized by the Service as exempt under section 501(c)(6) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.